

TESTIMONY OF MARK W. VALENTI
FEBRUARY 10, 2009
RAISED BILL NO. 802

Good afternoon. I want to thank you, Senator Handley, Representative Willis and members of the Committee for this opportunity. My name is Mark Valenti and I am President of the Connecticut Student Loan Foundation (Foundation or CSLF). I am here to speak in favor of Raised Bill No. 802, An Act Concerning the Connecticut Student Loan Foundation.

Passage of this bill will allow the Foundation to take necessary corrective action as a result of the federal cuts in the student loan program, changes in the student loan marketplace and the negative impact of the continuing capital market and financial market conditions.

Currently, the Foundation operates two distinct lines of business. One is making loans to students for higher education, as well as purchasing and selling education loans as a secondary market. The second line of business is guaranteeing student loans made by lenders and providing services incident to those guarantees, as well as outreach and early awareness activities required under the Federal Family Education Loan Program.

Federal legislation in recent years, most notably the Higher Education Reconciliation Act of 2005 and the College Cost Reduction and Access Act of 2007, have resulted in material funding cuts and placing a significant financial burden on the Foundation. The implementation of this Federal legislation has impacted the Foundation's guaranty agency financial position by approximately \$2 million annually, and has negatively impacted our lender earnings going forward. Significant reductions in revenues and

increased requirements imposed by The Higher Education Act have resulted in severe stress on the Foundation's operation and is quickly making the continuation of its purpose and mission of improving educational opportunities an impossible task.

We have suffered significant losses and are in a serious negative cash flow dilemma. In the past, we have been able to supplement guaranty activities with earnings and cash flow from our lending and secondary market activities. However, due to federal cuts in both our guaranty and lending businesses, as well as the impact of the continuing capital market crisis, the Foundation is no longer able to sustain its operation through its business model of using its lending function to supplement its guarantee function.

The Connecticut Student Loan Foundation is asking for the opportunity and flexibility to negotiate the transfer of all or part of its guarantor and/or lender portfolios and designation to one or more entities. Being granted this authority at this time could allow the Foundation to:

- Curtail ongoing losses and negative cash flow;
- Eliminate certain existing liabilities such as those to its mortgagee and underfunded defined benefit pension plan;
- Negotiate the continued employment of much of the existing staff here in Connecticut;
- Provide cash for continuing the operation of any remaining business.

We have had expressions of interest by large non-profit agencies to acquire CSLF's guaranty business. Due to ongoing discussions and confidentiality agreements in place, I am unable to name these agencies publicly at this

time. However, these entities clearly have economies of scale that do not exist at CSLF. The Foundation would like to pursue these opportunities and any others that may help to eliminate liabilities, maintain jobs in Connecticut and ensure that the lending and guarantor services currently being provided to Connecticut residents by CSLF will continue. The Board of Directors of CSLF needs this flexibility provided by Raised Bill No. 802 to both respond to and be pro-active in these rapidly changing market conditions.

I thank you for your consideration of Raised Bill No. 802 and will be happy to answer any questions you may have.